Thembisile Hani Local Municipality
Annual Financial Statements
for the year ended 30 June 2013

General Information

Accounting Officer	JI Sindane
Registered office	24 Kwaggafontein C Opposite Police Station Kwaggafontein 3100
Postal address	Private Bag X4041 Empumalanga 3100
Bankers	First National Bank
Auditors	Auditor-General

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

A report of the accounting officer has not been prepared as the municipality is a wholly owned controlled entity of which is incorporated in South Africa.

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The Auditor General of South Africa are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the council sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2014 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is largely dependent on Government Grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Government has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The Auditor General of South Africa are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been audited by the Auditor General of South Africa and their report is presented on page 4.

The annual financial statements set out on pages 4 to 31, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2013 and were signed on its behalf by:

JI Sindane
Municipal Manager

Statement of Financial Position

Figures in Rand	Notes	2013	2012
Assets			
Current Assets			
Consumable stores and Water Inventory	30	4 946 946	-
Trade and other receivables from exchange transactions	5	47 016 755	5 588 401
VAT receivable	6	962 658	14 698 986
Cash and cash equivalents	7	3 189 252	75 911 716
Total Current Assets		**56 115 611**	**96 199 103**
Non-Current Assets			
Property, plant and equipment	4	2 138 904 310	2 021 100 763
Total Assets		**2 195 019 921**	**2 117 299 866**
Liabilities			
Current Liabilities			
Trade and other payables from exchange transactions	10	62 987 732	48 804 544
Unspent conditional grants	8	2 838 544	28 868 821
Provisions	9	3 125 125	-
Total Current Liabilities		**68 951 401**	**77 673 365**
Non-Current Liabilities			
Provisions	9	19 451 063	12 448 585
Total Non-Current Liabilities		**19 451 063**	**12 448 585**
Total Liabilities		**88 402 464**	**90 121 950**
Total Net Assets		**2 106 617 457**	**2 027 177 916**
Net Assets			
Accumulated surplus		2 106 617 457	2 027 177 916

Statement of Financial Performance

Figures in Rand		2013	2012
Revenue			
Revenue From exchange transactions			
Service charges		37 593 944	32 701 908
Interest earned-external investments	19	4 455 732	5 512 287
Interest earned-outstanding receivables	19	12 234 171	12 908 458
Other Income from exchange Transactions		4 229 018	4 070 595
Licence and Permits		60 401	6 368 680
Rental of facilities and equipment		414 537	335 487
Revenue from non-exchange transactions			
Property Rates		4 791 658	6 535 187
Fines		112 893	44 724
Donations and Public contributions		7 673 721	-
Government grants & subsidies	12	334 567 678	312 613 821
Total Revenue		**406 133 753**	**381 091 147**
Expenditure			
Personnel	15	82 857 803	50 713 050
Remuneration of councillors		15 884 937	15 173 835
Depreciation and amortisation		-	64 066 096
Debt impairment	16	897	44 651 056
Repairs and maintenance		27 628 928	18 468 648
Bulk purchases	20	105 315 291	97 566 825
Grants and subsidies paid	19	2 863 000	1 740 432
General Expenses	13	97 855 789	74 662 447
Total Expenditure		**332 406 645**	**367 042 389**
Gain on disposal of assets and liabilities		-	438 596
Surplus for the year		**73 727 108**	**14 487 354**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2011	**2 012 690 562**	**2 012 690 562**
Changes in net assets		
Restated surplus for the year	14 487 354	14 487 354
Total changes	14 487 354	14 487 354
Balance at 01 July 2012	**2 033 868 571**	**2 033 868 571**
Changes in net assets		
Surplus for the year	73 727 108	73 727 108
Other movements	(978 222)	(978 222)
Total changes	72 748 886	72 748 886
Balance at 30 June 2013	**2 106 617 457**	**2 106 617 457**

Cash Flow Statement

Figures in Rand	Notes	2013	2012
Cash flows from operating activities			
Receipts			
VAT Refunds/(Payments)		19 243 995	(8 404 934)
Sale of goods and services		9 092 173	11 235 522
Grants		334 567 678	292 063 000
Interest income		4 455 732	5 512 287
Other receipts		11 902 738	1 757 396
Total receipts		379 262 316	302 163 271
Payments			
Employee costs		(94 254 409)	(65 886 884)
Suppliers		(283 649 026)	(153 586 084)
Total payments		(377 903 435)	(219 472 968)
Net cash flows from operating activities	21	**1 358 881**	**82 690 303**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(74 081 345)	(91 801 416)
Proceeds from sale of property, plant and equipment	4	-	438 596
Net cash flows from investing activities		**(74 081 345)**	**(91 362 820)**
Net increase/(decrease) in cash and cash equivalents		**(72 722 464)**	**(8 672 517)**
Cash and cash equivalents at the beginning of the year		75 911 716	84 584 233
Cash and cash equivalents at the end of the year	7	**3 189 252**	**75 911 716**

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the fair value assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including supply and demand, together with economic factors such as exchange rates, inflation and interest.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 9 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Accounting Policies

1.2 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	50
Infrastructure	
• Roads and Stormwater	25 - 50
• Reservoirs	50
• Electrical	25
• Water Reticulation	120
• Sewer	60
• Bulk Water Pipeline	60 - 100
• Sewage Pump Station	50
• Water Pump Station	50
• Stabilisation Ponds	25
• Waste Water Treatment Plant	50
• Borehole	30
• Telemetry System	5
Community	
• Buildings	50
• Recreational facilities	50
• Halls	50
• Libraries	50
• Parks and gardens	50
• Creche	50
• Abbatoir	50
Other assets	
• Plant and Equipment	5 - 10
• IT Equipment	3 - 5
• Office equipment	3 - 7
• Furniture and fittings	3 - 7
• Motor Vehicles	5

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Accounting Policies

1.2 Property, plant and equipment (continued)

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.3 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.4 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit - held for trading
- Financial assets at fair value through surplus or deficit - designated
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

1.4 Financial instruments (continued)

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Regular way purchases of financial assets are accounted for at trade date.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit include dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in equity.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

1.4 Financial instruments (continued)

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

1.4 Financial instruments (continued)

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

1.5 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.6 Consumable stores and Water Inventory

Consumable stores and Water Inventory are initially measured at cost except where consumable stores and water inventory are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently consumable stores and water inventory are measured at the lower of cost and net realisable value.

Consumable stores and Water Inventory are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of consumable stores and water inventory comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the consumable stores and water inventory to their present location and condition.

The cost of consumable stores and water inventory of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of consumable stores and water inventory is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all consumable stores and water inventory having a similar nature and use to the municipality.

When consumable stores and water inventory are sold, the carrying amounts of those consumable stores and water inventory are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of consumable stores and water inventory to net realisable value or current replacement cost and all losses of consumable stores and water inventory are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of consumable stores and water inventory, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of consumable stores and water inventory recognised as an expense in the period in which the reversal occurs.

1.7 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

1.7 Employee benefits (continued)

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

1.8 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

1.9 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Accounting Policies

1.10 Revenue

Revenue comprises of sales to customers and service rendered to customers. Revenue is stated at the invoice amount and is exclusive of value added taxation.

1.11 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

1.12 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.13 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.14 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.15 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Accounting Policies

1.16 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.17 Conditional grants receipts

Revenue received from conditional grants and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.18 Budget information

The municipality is typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by the municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

1.19 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.20 Donations and subsidy receipts

Income from donations and subidies is recognised as income on receipt.

Figures in Rand	2013	2012

2. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net surplus per the statement of financial performance	73 727 108	14 487 354

3. Reconciliation between budget and cash flow statement

Reconciliation of budget surplus/deficit with the net cash generated from operating, investing and financing activities:

Operating activities		
Actual amount as presented in the budget statement	(72 481 095)	(82 428 807)
Net cash flows from operating activities	**1 358 881**	**82 428 808**
Investing activities		
Actual amount as presented in the budget statement	(78 713 714)	(91 101 324)
Net cash flows from investing activities	**(74 081 345)**	**(91 101 324)**
Financing activities		
Actual amount as presented in the budget statement	(6 232 617)	(8 672 518)
Net cash flows from financing activities	**-**	**-**
Net cash generated from operating, investing and financing activities	**(72 722 464)**	**(8 672 516)**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

4. Property, plant and equipment

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	46 388 960	(2 429 410)	43 959 550	46 388 960	(2 429 410)	43 959 550
Plant and machinery	40 868 394	(8 790 051)	32 078 343	19 754 268	(8 790 051)	10 964 217
Furniture and fixtures	5 254 441	(2 459 030)	2 795 411	4 411 289	(2 459 030)	1 952 259
Motor vehicles	22 399 867	(14 395 418)	8 004 449	20 666 967	(14 395 418)	6 271 549
Office equipment	1 192 084	(498 125)	693 959	632 723	(498 125)	134 598
IT equipment	3 587 323	(1 332 522)	2 254 801	3 133 686	(1 332 522)	1 801 164
Infrastructure	1 932 210 299	(102 181 527)	1 830 028 772	1 932 088 575	(102 181 527)	1 829 907 048
Community	68 703 195	(4 977 295)	63 725 900	68 703 195	(4 977 295)	63 725 900
Assets under construction	155 363 125	-	155 363 125	62 384 478	-	62 384 478
Total	**2 275 967 688**	**(137 063 378)**	**2 138 904 310**	**2 158 164 141**	**(137 063 378)**	**2 021 100 763**

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Total
Buildings	43 959 550	-	43 959 550
Plant and machinery	10 964 217	21 114 126	32 078 343
Furniture and fixtures	1 952 259	843 152	2 795 411
Motor vehicles	6 271 549	1 732 900	8 004 449
Office equipment	134 598	559 361	693 959
IT equipment	1 801 164	453 637	2 254 801
Infrastructure	1 829 907 048	121 724	1 830 028 772
Community	63 725 900	-	63 725 900
Assets under construction	62 384 478	92 978 647	155 363 125
	2 021 100 763	**117 803 547**	**2 138 904 310**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Transfers	Depreciation	Total
Buildings	45 174 255	-	-	(1 214 705)	43 959 550
Plant and machinery	11 681 040	2 305 000	-	(3 021 823)	10 964 217
Furniture and fixtures	1 899 552	682 620	-	(629 913)	1 952 259
Motor vehicles	8 623 267	1 621 515	-	(3 973 233)	6 271 549
Office equipment	180 653	21 220	-	(67 275)	134 598
IT equipment	2 245 869	328 495	-	(773 200)	1 801 164
Infrastructure	1 824 359 323	-	57 761 798	(52 214 073)	1 829 907 048
Community	65 922 822	-	-	(2 196 922)	63 725 900
Assets under construction	31 102 430	89 043 846	(57 761 798)	-	62 384 478
	1 991 189 211	**94 002 696**	**-**	**(64 091 144)**	**2 021 100 763**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

5. Trade and other receivables from exchange transactions

Trade debtors	217 110 302	173 289 697
Less provision for bad debts	(170 422 382)	(170 527 322)
Total net trade debtors	46 687 920	2 762 736
Other debtors	1 307 055	2 825 667
	47 016 755	**5 588 401**

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2013, R - (2012: R 2 762 736) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	4 356 611	496 385
2 months past due	2 725 990	347 824
3 months past due	2 710 125	1 918 167

Trade and other receivables impaired

As of 30 June 2013, trade and other receivables of R - (2012: R 173 289 697) were impaired and provided for.

The amount of the provision was R 170 422 382 as of 30 June 2013 (2012: R 170 527 322).

3 to 6 months	2 697 297	505 243
Over 6 months	183 235 414	170 022 079

The carrying amount of trade and other receivables are denominated in the following currencies:

Reconciliation of provision for impairment of trade and other receivables

Opening balance	170 527 322	125 874 125
Provision for impairment	-	44 653 197
Unused amounts reversed	(104 940)	-
	170 422 382	**170 527 322**

5.1 Classification of Debtors by Services

Gross balances		
Rates	-	14 006 639
Water	-	36 279 598
Sewerage	-	783 202
Refuse	-	10 648 581
Other (specify)	-	26 655 576
	-	**88 373 596**

Summary of debtors by customer classification

6. VAT receivable

VAT	962 658	14 698 986

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	5 000	5 000
Bank balances	3 009 432	53 994 350
Short-term deposits	174 820	21 912 366
	3 189 252	**75 911 716**

The municipality had the following bank accounts

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Account number / description	Bank statement balances			Cash book balances		
	30 June 2013	30 June 2012	30 June 2011	30 June 2013	30 June 2012	30 June 2011
First National Bank - Current Account - 620-262-96427	17 542 572	34 592 910	49 065 921	17 542 572	34 592 910	34 516 546
First National Bank - Call Deposit - 621-470-52427	174 820	1 689 995	1 609 149	174 820	1 689 995	1 609 149
Capitec Bank - Current Account - 117-301-4177	170 149	306 766	2 148 615	170 149	306 766	2 148 615
Investec Bank - Account Type - 110-0463-500450	20 222 371	20 222 371	46 304 924	20 222 371	20 222 371	46 304 924
Nedbank - Current Account	2 695 365	19 094 682	-	2 695 365	19 094 682	-
Total	**40 805 277**	**75 906 724**	**99 128 609**	**40 805 277**	**75 906 724**	**84 579 234**

8. Unspent conditional grants

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
MIG grant	-	28 868 821
International Electric Grant	2 838 544	-
	2 838 544	**28 868 821**

Movement during the year

Balance at the beginning of the year	28 868 821	49 419 642
Additions during the year	111 092 000	92 796 526
Income recognition during the year	(137 122 277)	(113 347 347)
	2 838 544	**28 868 821**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

9. Provisions

Reconciliation of provisions - 2013

	Opening Balance	Additions	Total
Landfill Sites provision	8 617 991	5 783 035	14 401 026
Employee benefit cost	3 830 594	1 219 443	5 050 037
Bonus Provision	-	3 125 125	3 125 125
	12 448 585	**10 127 603**	**22 576 188**

Reconciliation of provisions - 2012

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	8 626 160	-	(8 169)	8 617 991
Employee benefit cost	2 632 772	1 197 822	-	3 830 594
	11 258 932	**1 197 822**	**(8 169)**	**12 448 585**

Non-current liabilities	19 451 063	12 448 585
Current liabilities	3 125 125	-
	22 576 188	**12 448 585**

The municipality has 2 dumping sites, one in Kgwaggafontein which is 3,5 hectares and the other one in Kwamhlanga which is 5.4 hectares.

The rehabilitation cost estimate was based on the rehabilitation cost per square meter as applicable to other similar municipalities and adjusted for inflation.

The dumping site provision represents management's best estimate of the municipality's liability to restore the dumping site.

10. Trade and other payables from exchange transactions

Other creditors	1 620 291	1 744 705
Retentions	12 120 322	11 725 018
Income collected on behalf of PRODIBA	3 727 713	394 975
Accrued expenses	45 310 706	34 845 122
Other deposits	208 700	94 724
	62 987 732	**48 804 544**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

11. Revenue

Service charges	37 593 944	32 701 908
Sales of housing	4 229 018	4 070 595
Royalty income	60 401	6 368 680
Rental of facilities & equipment	414 537	335 487
Public contributions and donations	4 791 658	6 535 187
Fines	112 893	44 724
Licences and permits	7 673 721	-
Government grants & subsidies	334 567 678	312 613 821
	389 443 850	**362 670 402**

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	37 593 944	32 701 908
Sales of housing	4 229 018	4 070 595
Royalty income	60 401	6 368 680
Rental of facilities & equipment	414 537	335 487
Licences and permits	7 673 721	-
	49 971 621	**43 476 670**

The amount included in revenue arising from non-exchange transactions is as follows:

Property rates and traffic fines		
Public contributions and donations	4 791 658	6 535 187
Fines	112 893	44 724
Grant income		
Grant receipts	334 567 678	312 613 821
	339 472 229	**319 193 732**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

12. Government grants and subsidies

Equitable share	218 428 000	191 831 000
MSIG grant	800 000	1 116 043
MIG grant	108 092 000	108 227 198
Water subsidy	3 134 678	6 985 000
International electric grant	-	1 813 000
FMG grant	1 250 000	1 250 000
EPWP	2 863 000	1 391 580
	334 567 678	**312 613 821**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

MIG grant

Balance unspent at beginning of year	28 868 821	47 990 019
Current-year receipts	108 092 000	89 106 000
Conditions met - transferred to revenue	(136 960 821)	(108 227 198)
	-	**28 868 821**

Conditions still to be met - remain liabilities (see note 8).

FMG grant

Current-year receipts	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 250 000)	(1 250 000)
	-	**-**

International electric grant

Current-year receipts	3 000 000	1 813 000
Conditions met - transferred to revenue	(161 456)	(1 813 000)
	2 838 544	**-**

MSIG grant

Balance unspent at beginning of year	-	326 043
Current-year receipts	800 000	790 000
Conditions met - transferred to revenue	(800 000)	(1 116 043)
	-	**-**

Conditions still to be met - remain liabilities (see note 8).

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

12. Government grants and subsidies (continued)

EPWP

Balance unspent at beginning of year	-	1 103 580
Current-year receipts	2 863 000	288 000
Conditions met - transferred to revenue	(2 863 000)	(1 391 580)
	-	**-**

Conditions still to be met - remain liabilities (see note 8).

13. General expenses

Auditors remuneration	1 965 754	1 249 707
Consulting and professional fees	1 585 919	3 060 782
Prodiba	-	691 785
Insurance	968 877	1 383 338
Sanitation	-	1 606 669
VIP Toilets	4 108 803	6 815 136
Lease rentals on operating lease	990 940	235 286
Legal costs	1 618 442	3 449 226
Motor vehicle expenses	3 308 740	3 604 242
VAT recovery expenses	4 372 936	4 024 582
Valuation roll	111 037	2 763 158
Fuel and oil	6 039 604	3 471 945
Data cleansing - indigent register	250 000	23 399
Other expenses	25 477 914	14 666 566
Security (Guarding of municipal property)	10 459 138	10 484 581
Telephone and fax	2 016 064	2 313 172
Travel - local	1 981 897	1 873 959
Electricity and water services	4 110 987	4 150 014
Publicity	14 401 026	-
Department of transport license fees	545 453	-
Free basic water	11 872 865	7 069 325
Free basic electricity	1 669 393	1 725 575
	97 855 789	**74 662 447**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

14. Operating surplus/(deficit)

Operating surplus/(deficit) for the year is stated after accounting for the following:

Interest	2 037 735	2 074 845
Operating lease charges		
Premises		
• Contractual amounts	-	15 755
Equipment		
• Contractual amounts	990 940	219 531
	990 940	**235 286**
Gain on sale of property, plant and equipment	-	438 596
Depreciation	-	64 066 096
Employee costs	98 742 740	65 886 885

Minimum lease payments

Within 1 year	1 129 786	317 212
Payable betwee 2 to 3 years	1,170,250	
33,630		
After 5 years	-	319

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

15. Employee related costs

Basic	52 415 304	39 615 878
Bonus	3 003 789	-
Medical aid - company contributions	2 904 706	2 291 635
UIF	462 242	228 087
SDL	626 731	385 554
SALGBC	26 361	-
Leave pay provision charge	4 344 567	1 197 823
Cellphone allowances	322 650	-
Councillor's allowance	614 865	-
Post-employment benefits - Pension - Defined contribution plan	9 777 340	6 115 677
Travel, motor car, accommodation, subsistence and other allowances	2 197 527	-
Overtime payments	3 511 906	-
Acting allowances	2 551 393	-
Housing benefits and allowances	98 422	878 396
	82 857 803	**50 713 050**

Remuneration of municipal manager

Annual Remuneration	1 105 800	741 391
Car Allowance	180 000	90 000
	1 285 800	**831 391**

Remuneration of chief finance officer

Annual Remuneration	771 550	507 943
Car Allowance	-	140 000
Performance Bonuses	240 000	-
	1 011 550	**647 943**

Remuneration of other executive directors

Annual Remuneration	2 234 300	444 000
Car Allowance	444 000	1 057 000
	2 678 300	**6 797 976**

Remuneration for Councillors

Mayor	647 205	-
Speaker	518 095	-
Executive committee members	2 712 484	-
Other councillors	12 007 153	-
		-
	15 884 937	**-**

Governance (office of city manager)

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

16. Debt impairment

Debt impairment	897	44 651 056

17. Interest Earned

Interest Earned -External Investments		
Investments	2 037 735	2 074 845
Bank	2 417 997	3 437 442
Interest Earned -outstanding receivables		
Consumer debtors	12 234 171	12 908 458
	16 689 902	**18 420 745**

18. Auditors' remuneration

Fees	1 965 754	1 249 707

19. Grants and subsidies paid

Other subsidies		
Grant expenditure	2 863 000	1 740 432

20. Bulk purchases

Water	105 315 291	97 566 825

21. Cash generated from operations

Surplus	73 727 108	14 487 354
Adjustments for:		
Depreciation	-	64 066 096
Loss on sale of assets and liabilities	-	(438 596)
Debt impairment	897	44 651 056
Movements in provisions	10 127 603	(8 169)
Other non-cash items	-	(2 305 029)
Changes in working capital:		
Consumable stores and Water Inventory	(4 946 946)	-
Trade and other receivables from exchange transactions	(42 406 573)	(3 006 086)
Consumer debtors	(897)	(44 651 056)
Trade and other payables from exchange transactions	(22 848 362)	38 850 488
VAT	13 736 328	(8 404 934)
Unspent conditional grants	(26 030 277)	(20 550 821)
	1 358 881	**82 690 303**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

22. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	-	26 171 510
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	-	2 697 311

23. Contingencies

Probable financial iimpact on the municipality as a result of legal cases

24. Related parties

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Relationships	
Accounting Officer	Refer to accounting officer's report note
Fellow Municipalities	Kungwini Local Municipality Dr JS Moroka Local Municipality Nkgangala District Municipality
Post employment benefit plan for employees of a related party of a close family member of key management	City of Tshwane
Members of key management	Councillors Section 57 managers

Related party transactions

Purchases from (sales to) related parties		
Dr JS Moroka Local Municipality	1 889 919	1 435 175
Kungwini Local Municipality	-	4 840 300
Rand Water	67 206 294	-
City of Tshwane	38 770 111	-
Donated assets		
Nkangala District Municipality	-	2 305 000
Remuneration		
Councillors	14 015 840	13 936 682
Section 57 Managers	2 297 350	2 264 052

25. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Financial risk management

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

25. Risk management (continued)

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

26. Events after the reporting date

27. Irregular expenditure

Opening balance	11 653 281	60 021 977
Add: Irregular Expenditure - current year	2 933 608	11 653 281
Less: Amounts condoned	(11 653 281)	(60 021 977)
	2 933 608	**11 653 281**

Details of irregular expenditure – prior year

	Disciplinary steps taken/criminal proceedings	
Proper supply chain procedures were not followed during the procurement of the above transactions of goods and services.	An investigation where top management was involved is in progress and the outcome is not yet known.	11 653 281

Details of irregular expenditure - current year

	Action taken by the municipality	
Non-adherence to supply chain.	Disciplinary hearing.	2 592 273

28. VAT payable

29. Intangible assets

Reconciliation of intangible assets - 2013

Reconciliation of intangible assets - 2012

30. Consumable stores and Water Inventory

Finished goods	4 946 946	-

Appendix E
June 2013

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2013

	Current year 2012 Act. Bal. Rand	Current year 2012 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Property rates	-	4 200	(4 200)	(100.0)	The valuation roll was still in the process of being compiled so that billing can be accurate.
Service charges	37 593 944	37 000	37 556 944	505.3	The municipality was still in the process of cleansing data so that correct billing can happen.
Rental of facilities and equipment	414 537	127 500	287 037	225.1	Un-antipated renting out of community halls to residents.
Fines	112 893	40 000	72 893	182.2	More offenders than anticipated.
Licences and permits	7 673 721	924 000	6 749 721	730.5	As a result of unemplyment leading to more people venturing into businesse.
Government grants & subsidies	334 567 678	246 707 000	87 860 678	35.6	MIG spending in excess of what was anticipated.
Other income	-	1 250 000	(1 250 000)	(100.0)	Includes donation income of R 7 million.
Interest income	16 689 902	350 000	16 339 902	668.5	Budgeting performed on anticipated interest on bank balances but not on billing.
	406 133 752	249 439 700	156 694 052	62.8	
Expenses					
Personnel	(79 732 678)	(75 830 189)	(3 902 489)	5.1	Positions advertised in the 2011/2012 financial year were filled in the current year.
Depreciation	-	(10 000 000)	10 000 000	(100.0)	Depreciation on infrastructure assets not budgeted for as the municipality was still in the process of updating the infrastructure asset register.
Debt impairment	(897)	(3 500 000)	3 499 103	(100.0)	Management embarked on full scale debt collection process and they believed only few debtors would be impaired.
Repairs and maintenance	(27 628 928)	(23 404 921)	(4 224 007)	18.0	A lot of municipal assets needed repairing and some contractors are still busy repairing as at year end.
Bulk purchases	(105 315 291)	(64 000 000)	(41 315 291)	64.6	The municipality could not foresee the increased demand for water supply.
Grants and subsidies paid	(2 863 000)	(1 740 432)	(1 122 568)	64.5	
General Expenses	(97 855 789)	(97 714 575)	(141 214)	0.1	Some of the goods and services were only procurred closer to year end resulting in actual spending occuring in the next financial year.
	(332 406 645)	(276 190 117)	(56 216 528)	20.4	
Other revenue and costs	-	-	-	-	
Net surplus/ (deficit) for the year	73 727 107	(26 750 417)	100 477 524	(375.6)	